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SUBJECT: THAI-JAPAN TRADE AGREEMENT SET TO ENTER INTO FORCE

¶1. Summary. The Japan-Thailand Economic Partnership Agreement (JTEPA) will enter into force on November 1. The trade agreement liberalizes the vast majority of trade in goods between the two countries, though key Thai exports like rice and sugar are excluded. Trade in services and investment is also liberalized though not to the degree of openness enjoyed by U.S. investors. Thai business expects a 20 percent boost in overall exports to Japan due to the agreement, with some hard-hit sectors like apparel, jewelry and sea products hoping for even better performance. End Summary.

¶2. Five years after Thailand and Japan agreed to pursue a trade agreement, the JTEPA will enter into force on November 1. The two countries agreed in principle on the treaty in September 2005, but due to the unstable political situation in Thailand did not officially sign until April, 2007. Although the agreement is considered similar to a free trade agreement, both sides note that many chapters of the agreement deal with cooperation in economic sectors rather than liberalization, and therefore termed it an "Economic Partnership Agreement."

¶3. The agreement is expected to have a significant impact on trade: Japan is Thailand's largest trading partner and Thailand is Japan's sixth largest. Bilateral trade in 2006 surpassed USD 42 billion and made up 16 percent of Thailand's total trade with the world. Japan is Thailand's top export market for sugar, chicken and aluminum products, and second largest for rubber, vegetables and furniture. Electronic machinery makes up the largest segment of Thailand's exports to Japan. Japan is also the largest investor in Thailand; the Japanese Embassy estimates new investment from Japan at an average of three billion dollars annually.

Tariffs take a haircut  
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¶4. The agreement promises to eliminate or reduce tariffs on 97 percent of Japan's exports to Thailand by value, and 92 percent of Thailand's exports to Japan. Many of the reductions will take place immediately with the rest spread out over ten years. Thai trade officials have highest hopes for rapid expansion of exports of agricultural and sea products. Under the agreement, Japan will immediately lift tariffs on tropical fruits such as durians, papayas, mangoes and coconuts. Tariffs on processed shrimp are also set for immediate elimination, followed by other fish products over five to ten years. However, Deputy Director General Winichai Chaemchaeng of the Department of Trade Negotiations said his side was disappointed, but not surprised, that Japan insisted on excluding rice, sugar and canned pineapples from the agreement, though the latter two may be renegotiated within five years.

¶5. For its part, in the agricultural sector Thailand will immediately drop its 10-40 percent tariffs on temperate fruits, including apples, pears, peaches and berries. Strawberries and melons will see tariffs reduced over two years. The Japan External

Trade Organization estimated the agreement would increase Japanese fruit exports to Thailand by 30 to 50 percent per year. Thai officials are somewhat concerned that some niche agricultural projects in the north of Thailand may be negatively affected by the tariff reductions, but believe the effects will be slight.

¶16. Thailand's Board of Trade estimated earlier this year that Thai exports to Japan would grow 20 percent after the agreement. Individual industries expect even higher gains. The Thai Garment Manufacturers Association is optimistic that Japan's immediate elimination of tariffs on apparel and textiles would boost exports of those products by 25 percent. Tariffs on footwear and leather products are scheduled to be eliminated over seven to ten years. The Thai Frozen Food Association predicted at least 20 percent growth in exports of shrimp and other sea products. The jewelry industry, a top export industry for Thailand, hopes the elimination of 2.7 to 10 percent tariffs will raise their exports to Japan by as much as 40 percent in 2008.

¶17. Thailand's tariffs are also scheduled to come down for steel and autos, two of Japan's most important goals, though these were contentious issues and the last to be negotiated. Thailand has committed to eliminate tariffs on half the value of steel imports from Japan immediately, albeit with a quota, with the rest to be phased in over ten years. The Department of Foreign Trade set a duty-free import quota of 950,000 tons for the first year after implementation. Thai steel producers have been wary about opening up competition to more efficient Japanese producers, but Deputy DG Winichai said he was confident the manufacturing industry's demand for steel and local industry's close proximity to factories will keep Thai steel producers competitive. Out of concern for its domestic auto production, Thailand committed to reducing tariffs on autos with engines greater than 3000cc from 80 to only 60 percent over four years. Most auto parts will see tariff reductions down to

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20 percent immediately, but hold at that level for the next six years and then be eliminated. Engines and engine parts will maintain tariffs for eight years.

Services open a crack

¶18. Thailand agreed to crack open the door to liberalize some service sectors, allowing sixty percent ownership of hotel and restaurants, and for maintenance and repair services for household appliances. Logistics consulting will be open for 51 percent ownership, and general management consulting to 100 percent. Wholesale and retail services are open for 75 percent ownership, with the condition that products are manufactured within Thailand (autos excepted). Japanese negotiators tried to obtain a commitment of MFN treatment for services liberalization offered in any other future trade agreement entered into by Thailand, but the Thais granted only that they would consider it. The text does include a commitment to negotiate on more service sectors in three to five years after implementation.

¶19. Japan agreed to begin lowering some barriers to movement of natural persons, now allowing Thai chefs to work in Japan with only five years of experience versus the previous ten. Japan agreed to reopen negotiations on nurses and spa workers in two more years.

¶10. Dr. Virachai Plasai, former Director General of MFA's International Economics Department and lead negotiator on the JTEPA services chapter, said that Japan's access to the services market is still substantially less than U.S. access under the U.S.-Thailand Treaty of Amity and Economic Relations (AER). The AER offers national treatment to U.S. businesses under a negative list approach, opening up all sectors to U.S. investors with only a few specific but notable exceptions such as telecommunications and fiduciary services. JTEPA uses a positive list, opening up only additional sectors specified within the agreement, and only one of which is allowed 100 percent ownership. In Dr. Virachai's view, Japan's access to services under the agreement will be only slightly better than what Thailand has already committed to provide under the WTO.

## Not Free Trade, Economic Cooperation

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¶11. Both Japanese and Thai officials stressed that the JTEPA focused at least as much on cooperation as on obligations. The agreement lays out plans for a "Steel Industry Cooperation Program," and an "Automotive Human Resources Development Institute," as well as projects on energy conservation, investment cooperation, and paperless trading. In the agricultural field, the agreement establishes two subcommittees to cooperate on food safety issues and improve contacts between agricultural cooperatives. Mr. Katsuya Ikkatai at the Japanese Embassy said the cooperation programs were not included as a form of compensation for trade dislocations, but that the Japanese did realize the importance they would play in that regard.

¶12. Comment: The JTEPA is not quite a thorough free trade agreement and both sides would have hoped for more liberalization in key areas. Nevertheless, implementation of the agreement next month will come as a welcome relief for Thailand's agriculture and apparel export industries that have been hard hit by the rapid appreciation of the Thai baht over the past year and a half. Thailand's recent trade agreements with China, Australia, and New Zealand helped increased Thailand's overall exports, and Thailand is moving ahead to finish up other ongoing negotiations with Peru and India. Thailand is also focusing on efforts to negotiate trade agreements through ASEAN. End Comment.  
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